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CHAPTER 1

GENERAL INFORMATION0101 INTRODUCTION

010101. Purpose. The purpose of this volume is to:

A. Establish the accounting, pricing, budgeting, and reporting policies and procedures which are necessary to implement the financial management requirements of the Arms Export Control Act (AECA) (reference (a)) and the Foreign Assistance Act (FAA).

B. Establish the accounting, financing, and billing procedures for foreign military sales (FMS) transactions in the FMS Trust Fund (i.e., Advances Foreign Military Sales, Executive) and in the performing appropriations when FMS orders are executed on a reimbursable basis.

C. Establish the pricing and costing criteria for FMS sales of defense articles and defense services (including training) and construction services furnished to friendly foreign governments and international organizations under authority of the AECA.

D. Ensure that the pricing policies are applied in situations where a contractor, involved in direct sales to a foreign government, acts as an agent of the foreign government in executing a purchase agreement with the U. S. Government for Department of Defense (DoD) materiel and services. The policies apply where coproduction, codevelopment, cooperative production, or cooperative development agreements are entered into with foreign governments.

★ 010102. Applicability. This volume of the Regulation applies to the Office of the Secretary of Defense, the Military Departments, the Chairman of the Joint Chiefs of Staff and the Combatant Commands, the Office of the Inspector General of the Department of Defense, the Defense Agencies, the DoD Field Activities and all other organizational entities of the Department of Defense (hereafter referred to collectively as “DoD Components”). Unless specifically exempted, FMS transactions should follow DoD accounting guidance contained elsewhere in this Regulation.

010103. Objectives. The general objectives of this volume are to:

A. Assure full compliance with the financial management and pricing requirements of the AECA, as amended.

B. Present an integrated accounting and financial control system that will record all financial transactions related to an FMS case from the time it is accepted until it is completed.

C. Present complete accounting support for the budget schedules and budget concepts as reflected in Volumes 2A and 2B of this Regulation.

D. Present an accounting and financial control pattern for FMS work which gives appropriate recognition to the fact that the budget authority resulting from accepted FMS cases is not necessarily recorded for an obligation in the year in which the case is accepted by the FMS customer.

E. Ensure that Trust Fund and performing appropriation accounting, reporting, and budget schedules are properly interfaced.

F. Facilitate budgeting, financial planning, and cost estimating for FMS transactions.

G. Ensure compliance with all requirements for the administrative control of funds and provide a Trust Fund accounting system that will meet the standards promulgated by the Joint Financial Management Improvement Program and Federal Accounting Standards Advisory Board.

010104. Volume Organization and Maintenance

A. Organization. This volume consists of chapters that are organized in terms of major categories of interest. For example, Chapter 2, Finance, includes the procedures to be followed in recognizing budget authority by various DoD Components involved in execution of an FMS case. Paragraph 020102 explains the responsibilities of the various DoD Components, paragraph 020103 explains the documents required for creation of budget authority, and paragraph 020104 establishes policies for recognition of budget authority in the FMS Trust Fund.

B. Identification System

1. Each of the chapters is subdivided into sections that are numbered consecutively in the hundred series identified by the chapter number. For example, section 0101 is the first section in Chapter 1, section 0201 is the first section in Chapter 2, etc.

2. Paragraphs are numbered consecutively with a six-digit number consisting of the chapter number (two digits), the section number (two digits), and a two-digit paragraph identity. For example, the first paragraph in section 0101 is numbered 010101 and the fourth paragraph in section 0101 is numbered 010104. Subparagraphs and subdivisions thereof are identified, in turn as necessary, by upper-case letters, Arabic numerals, lower-case letters, Arabic numerals in parentheses, and lower-case letters in parentheses. Thus, a subparagraph might be referred to as subparagraph 010101.A.1.a.(1)(a).

3. Page numbers are listed consecutively by chapter.

4. Table numbers consist of a two-part number. The first part will be the chapter number and the second part will be an Arabic number assigned to the table (e.g., 1-1 and 1-2).

5. Appendix numbers consist of a two-part number. The first part will be the consecutive letter of the alphabet and the second part will be the page number (e.g., A-1 and B-2).

★ C. Basic Publication and Changes. This volume is on the Internet (www.dtic.mil/comptroller/fmr/) so that financial management policies contained in this Regulation receive the widest possible distribution and dissemination within the Department. Formal coordination is required for all changes to the “DoDFMR,” which must be approved by the Under Secretary of Defense (Comptroller) (USD(C)). All changes for this volume proposed by the DoD Components shall be coordinated with the Defense Security Cooperation Agency (DSCA) (Comptroller/Financial Management). That office shall perform an initial review of proposed changes to assure consistency with the Arms Export Control Act (AECA) and security assistance policy and procedures, and then forward the change with a written DSCA endorsement to the USD(C) for final approval. Revised guidance issued by USD(C) memorandum in advance of a formal change to the volume will be incorporated in a formal change as soon as possible after issuance of the memorandum.

★ D. Automated Equivalents. The use of automated equivalent documents specified in this volume (e.g., DD Form 2060) is authorized.

010105. Interpretations, Recommendations, and Deviations. Requests for clarification, interpretation of, or changes to the provisions of this volume will be submitted through comptroller channels to the Office of the Under Secretary of Defense (Comptroller) (OUSD(C)). Any guidance contained in this volume that appears to be in conflict with other DoD issuances or the governing statutes and regulations will be reported to the Defense Finance and Accounting Service-Systems and Requirements (DFAS-DAC), located in Arlington Virginia. Deviations from the financial and accounting policies prescribed in this volume may not be implemented without the prior approval of the OUSD(C).

010106. Effective Date and Implementation

A. The provisions of this volume are effective immediately.

B. The DoD Components shall, when necessary, proceed to design or modify their reporting systems and pricing regulations in a manner that is consistent with the policies and procedures contained herein.

★0102 TREASURY ACCOUNTS

Security assistance funds and accounts are authorized by the Foreign Affairs/Foreign Relations committees of Congress (rather than the Armed Services Committees). Security Assistance Funds are appropriated to the Executive Branch, Office of the President, and are identified by Treasury Index (TI) “11” (sometimes referred to as a department code). Funds and accounts authorized by Acts originating in the Armed Services committees of the Congress and appropriated to the Department of Defense are identified by Treasury Index: “97” Defense Department, “17” Navy, “21” Army, and “57” Air Force.

Treasury account 11-8242 is the parent account for the FMS Trust Fund, as authorized by Foreign Affairs/Foreign Relations legislation. Contract authority and collections are recorded centrally against 11-8242. Responsibility for execution of the FMS program (e.g., obligations and disbursements) was transferred from the Executive Branch, Office of the President, to the Department of Defense. Treasury account 97-11 X 8242 is a transfer account and reflects that the Department of Defense (TI 97) is accounting for funds transferred to the Department from the Executive Branch, Office of the President (TI 11).

For day-to-day accounting transactions within the Department, the parent Treasury account TI 11 generally is dropped and the fund cite is identified as 97 X 8242; however, when consolidated financial statements and reports to the Department of the Treasury and the Office of Management and Budget are prepared, those documents must identify the complete fund cite 97-11 X 8242. Then, both accounts are merged and reported under the parent account. Only when the transfer account is closed into the parent account, for reporting purposes, can one see the complete status of the fund.

010201. Treasury Accounts Applicable to FMS Trust Fund Operations. The Department of the Treasury has established the following Trust Fund receipt and expenditure accounts to be used to account for cash collections, budget authority, and cash disbursements resulting from the FMS Program.

A. Cash Receipts. Cash collected from sales made under sections 21, 22, 29 and 30 of the AECA is deposited into Treasury Account 11-8242.001, "Deposits, Advances, Foreign Military Sales, Executive." The Defense Finance and Accounting Service, Deputate for Security Assistance Accounting, Denver (DFAS-AY/DE) processes cash collections into this account include cash transfers from appropriations provided by the U.S. Government to finance credit sales under section 23 and the proceeds guaranteed commercial loans under section 24 of the AECA. Department of Defense reports to the Department of the Treasury on the status of collections shall reflect account 11-8242.001 and are listed in the system operated by the Department of the Treasury's Financial Management Service under Line Code 1389, "Proprietary Receipts from the Public."

B. Budget Authority. The budget authority resulting from FMS orders is recognized in Treasury account 97-11X8242, "Advances, Foreign Military Sales, Executive." Budget authority is recognized only to the extent it is estimated that orders will be executed within a fiscal year. The portion of the order that cannot be executed is classified as an uncommitted acceptance.

C. Cash Expenditures. Cash disbursements to contractors (when direct cite procedures are used) and to DoD Components for services, items from inventory, and procurements financed by DoD appropriations/fund accounts are made from account 97-11X8242, "Advances, Foreign Military Sales, Executive."

★ D. Miscellaneous Receipts

1. Unfunded Civilian Retirement (UCR) costs for FMS contract Administrative Services (CAS) shall be entered on the DD Form 2060 and on all FMS CAS billings under miscellaneous receipts account 3041, “Recoveries Under the FMS Program, Army, Navy, Air Force, Defense” as specified in Chapter 2, section 0206, and Chapter 8, section 0806, of this volume.

2. UCR costs on FMS CAS for depot level maintenance efforts shall be computed on the salaries only and deposited in miscellaneous receipts account 3041.

010202. Treasury Accounts Applicable to Appropriations Made Available to Finance Credit Sales and Guaranties under Sections 23 and 24 of the AECA

A. Receipt and Utilization of Appropriations

1. Account 11X4121, “Foreign Military Loan Liquidating Account, Funds Appropriated to the President,” is used to record the receipt and use of funds appropriated by the Congress to finance credit sales and under section 23 guaranties for pre-1992 loan obligations under section 24.

2. Account 11 (fiscal year) 1085, “Foreign Military Financing, Direct Loan Program Account, Funds Appropriated to the President,” is used to record the appropriation that subsidizes the estimated long term cost to the U.S. Government the post-FY 1991 foreign military direct loan obligations.

3. Account 11X4122, “Foreign Military Financing, Direct Loan Financing Account, Funds Appropriated to the President,” is used to receive the subsidy cost payments from the program account, and includes all other cash flows to and from the U.S. Government resulting from post-1991 foreign military direct loans.

★ 4. Account 11 (fiscal year) 1082, “Foreign Military Financing Program, Grants, Funds Appropriated to the President,” is used to record the receipt and use of funds appropriated by the Congress to finance, by grant, U.S. defense sales to selected foreign friends and allies, and primarily through the FMS program. Administration expenses for International Military Education and Training are transferred from this account to the Military Departments to fund administrative expenses.

★ 5. Account 11 (fiscal year) 1081, “International Military Education and Training, Funds Appropriated to the President,” enables the training, on a grant basis, of selected foreign military and related civilian personnel in the United States and, in some cases, in overseas U.S. military facilities. In fiscal year 2001, Public Law 106-429 “Foreign Operations Appropriation Act for Fiscal Year 2001” authorized \$1,000,000 to remain available until expended. In fiscal year 2002, Public Law 107-115 “Foreign Operations Appropriation Act for Fiscal Year 2002,” authorized an additional \$3,000,000 to remain available until expended. This is the genesis of the 11X1081 account.

★ 6. Procedures for end-of-year close-out return of excess collections from the Foreign Military Loan Liquidating Account (FMLLA) (11X4121), borrowings and repayments are specified in the Treasury Financial Manual (TFM), Volume I, Part 2, Chapter 4600. FMLLA excess collections to the FMLLA are returned to miscellaneous receipts account 112814. Reference Title 2, United States Code (U.S.C.) 661d and TFM, Volume I, Part 2, Chapter 4600.

B. Cash Collections. The following accounts are used to capture collections made from foreign countries as a result of credit sales (loans) and loan guaranties.

1. Account 11X4121, “Foreign Military Loan Liquidating Account, Funds Appropriated to the President.” This account is used to collect the country’s repayments to the DSCA for default payment made by the DSCA to the Federal Financing Bank or commercial banks holding loans guaranteed by the DSCA for pre-1992 loan obligations.

2. Account 11X4122, “Foreign Military Financing, Direct Loan Financing Account, Funds Appropriated to the President.” This account is used for collections of foreign country repayments for post-1991 direct loan obligations.

★0103 TYPES OF FINANCING

010301. General. There are two types of financing associated with FMS: reimbursable and direct cite. The detailed budgeting and accounting requirements for each type are discussed throughout the remainder of this volume.

010302. Reimbursable Financing. Sales under section 21 of the AECA, and those sales under section 22 of the AECA for which the President has determined that it is in the national interest to bill for defense articles and services on or after delivery (deferred payment), shall be accomplished using reimbursable financing. In other words, if deferred payment is authorized, then the appropriation accounts shall be used to initially finance any outlays until FMS customer payment is made.

010303. Direct Cite Financing. New procurements initiated as a result of FMS orders under sections 22 and 29 of the AECA (except as exempted above) should be accomplished to the maximum extent feasible and appropriate through direct citation of the FMS Trust Fund (97-11X8242) on applicable contractual documents.

010304. Accounting for Financing. See Table 1-1 of this chapter.

Table 1-1 Accounting Classification Codes of the FMS Trust Fund

	<u>Appropriation/Limit</u>	<u>Agency Code</u>	<u>Agency Name</u>
	97-11X8242.XXX1	B	Army
	97-11X8242.XXXC	C	Defense Information Systems Agency
	97-11X8242.XXX2	D	Air Force
★	97-11X8242.XXXF	F	Defense Contract Management Agency
	97-11X8242.XXXG	G	Defense Finance and Accounting Service
	97-11X8242.28XX	P	Navy and Marine Corps (MISIL)
	97-11X8242.XXXX	P	Navy (STARS)
	97-11X8242.XXX9	Q	Defense Security Cooperation Agency
	97-11X8242.XXXE	E	U.S. Army Corps of Engineers
★	97-11X8242.XXXM	M	National Security Agency
	97-11X8242.XXXR	R	Defense Logistics Agency
	97-11X8242.XXXU	U	National Imagery and Mapping Agency
	97-11X8242.XXXV	V	Defense Contract Audit Agency
	97-11X8242.XXXW	W	Defense Advanced Research Projects Agency
	97-11X8242.XXXZ	Z	Defense Threat Reduction Agency

NOTE: XXX in the limit or subhead is variable data dependent on the agency.